

# The Treasury

## Shareholder Expectations Letters Information Release

### Release Document

April 2019

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- [4] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
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**18 FEB 2019**

Mr Ian Fitzgerald  
Chair  
Public Trust  
PO Box 8929  
AUCKLAND 1150

Dear Mr Fitzgerald

## **2019/20 SHAREHOLDER EXPECTATIONS OF PUBLIC TRUST**

I am writing on behalf of shareholding Ministers to outline the matters that we expect the Board of Public Trust to address in the business planning process for the 2019/20 financial year.

The Government remains committed to resolving key long-term challenges facing the country including sustainable economic development, increasing exports, decent jobs paying higher wages, a healthy environment and a fair society and good government.

Ministers expect that the Boards of entities that comprise the Crown's Commercial Portfolio will support the Government to resolve these challenges by continuing to maximise the value of the portfolio through improved financial performance and effective capital management.

This letter contains the following information:

- Ministers' specific expectations for Public Trust
- General expectations for the Crown's Commercial Portfolio, and
- Timeline for the 2019/20 business planning process (Annex 1)

Although some of the general expectations are highlighted below, the full expectations for the Crown's Commercial Portfolio companies are contained in the Owner's Expectations Manual (OEM). The OEM, and updates, can be found on the Treasury's website <https://treasury.govt.nz/publications/guide/owners-expectations-manual>.

Ministers expect that the directors and management of the companies will be familiar with the OEM to ensure shareholder expectations are being met. Attached to this letter is the timeline for the 2019/20 business planning process.

I note that Public Trust's Board and management have undertaken a considerable restructuring programme in recent years and I would like to thank you for your determination and commitment to ensuring Public Trust maintains its financial viability in the long term.

I also note that Bob Smith has announced his retirement, and a recruitment process is underway to fund a suitable replacement. I would like to take this opportunity to personally thank Bob for his significant and successful efforts in leading Public Trust during his tenure.

## **Public Trust specific expectations**

### *Retail and core-business services*

I ask the Board to continue to strengthen the delivery of Public Trusts' core retail services to New Zealanders in a manner which supports its overall financial viability for the long-term. I understand that Public Trust has started to explore additional support services that may benefit its clients. I expect these services to remain core to the Wills and Estate business, consistent with section 8(1)(a) of the Public Trust Act 2001, and that my officials are kept well informed as these services are developed.

### *Future operating model*

I understand that Public Trust's strategic long-term business plan includes the development of its future operating model, including online service offerings (i.e. online Wills). It is my understanding that this is being delivered alongside the existing traditional service model. I request the Board to provide an implementation plan to my officials indicating how this will be operationalised.

### *Operational Excellence*

With the business restructure largely complete, I understand the Board's focus has shifted towards sales growth with 10 key operational improvements having been prioritised for internal implementation. I request that the Board maintain the current focus on strengthening its underlying operations and culture. Our desire is for Public Trust to have an efficient business model in the long term, consistent with Public Trust's objectives as set out in section 9 of the Public Trust Act 2001.

### *Retaining the Common Fund Guarantee*

Whilst Public Trust has worked closely with officials on the proposal to remove the Common Fund guarantee, the Crown has decided to retain it. In light of retaining the guarantee, I expect Public Trust to continue to support officials in exploring further risk-mitigating options. I would like Public Trust to include additional reporting on the Common Fund in its 2019/20 Statement of Performance Expectations (SPE). This additional reporting would, at the very least, detail the Common Fund's risk and return profile looking forward over the next financial year. This is expected to become a permanent addition to Public Trust's SPE.

### *Advance repayment*

As you know, Public Trust received two capital injections from the Crown in 2008 and 2009, totalling \$50 million, as a result of losses incurred in the Common Fund. Separate to the resumption of dividend payments, the Crown expects to see this capital returned as soon as the funds of Public Trust are sufficient for the repayment.

## **General expectations**

Expectations for *Significant Capital Investment* and *Board Evaluations*, which were previously included in this letter, have now been included in the OEM update, July 2018.

### *Dividends*

Ministers expect positive business performance to result in dividend payments, and that an appropriate balance is maintained between dividends and reinvestment. Our preference is for dividends over new investment.

A statement of the principles adopted by the Board in determining the annual dividend is required to be disclosed in the Statement of Intent (SOI).

Ministers will be placing a higher level of focus on the principles adopted by the Board to determine the annual dividend; in particular, the relationship between operating cash flow, sustaining capital expenditure, discretionary capital expenditure and dividends paid.

#### *Capital structure*

Ministers expect that the Board will periodically review the capital structure of the entity to ensure that it is:

- (i) appropriate for the entity; and
- (ii) any borrowing is maintained at a prudent level.

Should you undertake any borrowing, ensure that all lenders are specifically made aware that the borrowing does not represent Crown debt, and accordingly is not guaranteed by the Crown.

Entities are expected to return any surplus capital to the Crown so that it may be used to fund other Crown priorities.

#### *Commercial valuations*

Ministers place significant reliance on the Board's estimate of the Crown entity's commercial value. We expect these valuations to be robust, and either prepared or reviewed independently, where appropriate. The review should include the reviewer's view of key assumptions included in the model. Guidance on the commercial preparation and disclosure is provided in Annex 2 of the OEM.

#### *Diversity*

Consistent with government support for increased diversity and gender balance on boards, entities are encouraged to support diversity and inclusion in the workplace and in leadership.

#### **Engagement**

Your Treasury relationship managers will be in contact shortly after you receive this letter to discuss Ministers' expectations in more detail. If you have any questions please contact James Wilson on [6] \_\_\_\_\_ or Alex Ng on [6] \_\_\_\_\_. Alternatively, please contact Shelley Hollingsworth, Manager, Commercial Performance on [6] \_\_\_\_\_.

Yours sincerely



Hon Aupito William Sio  
**Associate Minister of Justice**

cc: Mr Bob Smith, CEO, Public Trust

## Annex 1

### *Timetable for the Business Planning Process for 2019/10*

<b><i>Due Date</i></b>	<b><i>Key Action</i></b>
1 May	Board submits draft SOI (if required) and SPE
30 June	Board delivers final SOI and SPE to Ministers

Further guidance on the timetable is contained in section 5.6.4 of the OEM. The OEM is available from the Treasury's website at:

<https://treasury.govt.nz/publications/guide/owners-expectations-manual>